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## **POLICY SUMMARY – CABINET DEPARTMENTS**

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**[Note: The President’s budget also evaluates the effectiveness of select Federal programs and the performance and management of Government agencies. In this summary, these discussions are reflected under “Other Issues” for each agency.]**

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## DEPARTMENT OF AGRICULTURE

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### SUMMARY

The President's budget request for the Department of Agriculture [USDA] provides a total of \$75.8 billion in funds. A sum of \$56 billion, a decrease of 1 percent from 2002, is allocated to mandatory activities, while \$19.8 billion, the same level as 2002, goes to discretionary budget authority. Funding reductions include \$175 million for the U.S. Forest Service [USFS] and \$69 million for Research, Education, and Economics. Programs increased include Commodity and International (\$464 million) and Marketing and Regulatory Programs (\$99 million).

The Department also administers major nutrition programs, such as food stamps and school lunch and breakfast programs.

### KEY COMPONENTS

#### Agriculture Programs

The President's budget contains a number of key initiatives related to agriculture, including the following:

- **Farm Programs:** The budget requests \$73.5 billion in funds over 10 years for farm programs. The funding level is identical to that of H.R. 2646, the House Agriculture Committee's proposed Farm Bill, which passed the House last year. Inclusion of these funds will maintain a safety net for farmers and provide long-term certainty to benefit them in their planning efforts.
- **Crop Insurance Reform:** The President proposes amending the Federal Crop Insurance Act by capping underwriting gains to 12.5 percent of each insurance companies retained premiums for the year. This change will save taxpayers \$115 million in 2003.
- **Homeland Security:** Funding for agriculture-related homeland security efforts is increased by \$271 million to \$2.4 billion. The lion's share of this increase goes to the Animal Plant and Health Inspection Service [APHIS] responsible for protecting U.S. agriculture from pests and animal diseases. Included in this increase are: a \$101-million increase in pest and animal disease control management; a \$48-million increase in plant

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and animal health monitoring; and a \$19-million increase in the Agriculture Quarantine Inspection Service for inspections at land border crossings and on flights entering the mainland. The President's plan also adds \$34 million to support research aimed at protecting the Nation's agriculture and food system from attack.

- **Food Safety:** An increase of \$75 million is proposed for pest and disease exclusion and monitoring programs to protect against foreign animal diseases such as Foot and Mouth Disease entering the United States.
- **Research:** The budget increases by \$58 million funding for in-house research, including bio-based products, biotechnology, counter-terrorism, invasive species, genomics, and upgrades to the National Agriculture Laboratory. It also doubles funds for the National Research Initiative [NRI], USDA's major discretionary competitive grant program to \$240 million. It generates savings by eliminating funds for numerous unrequested projects added by Congress during the past 2 years.
- **Trade Expansion:** The President fully funds Foreign Agricultural Service [FAS] which represents U.S. agricultural interests overseas and plays a critical role in gathering market intelligence. Included in this funding stream is a \$300 million increase for the Commodity Credit Corporation's [CCC] Export Credit Guarantee Program, which facilitates exports to buyers in countries where credit is necessary to maintain or increase U.S. sales, but not available without CCC guarantees. The budget provides the maximum allowable funds under the Uruguay Round for the Export Enhancement Program [EEP] and the Dairy Export Incentive Program [DEIP]. It also funds the Market Access Program at the current \$90 million level but substantially below the \$200 million level proposed in the House passed Farm Bill.
- **Field Office Structure:** The budget proposes Freedom to Manage Act which reforms the Department's current field office structure. The purpose of this legislation is to develop a plan for co-locating at least 200 additional Farm Services Agency [FSA], Natural Resources Conservation Service [NRCS], and Rural Development [RD] offices in 2003 and centralize loan servicing functions that do not need to be performed at the field level.
- **Phase-Out of USDA Flood Mitigation Projects:** The President's plan would close USDA's Watershed and Flood Prevention Operations which struggles to achieve the required cost-benefit ratio. The proposal combines this program with the Army Corps of Engineer's flood damage reduction program which returns 50 cents more per dollar invested than USDA's program.

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### Environmental Programs

- **Environment:** The budget promotes voluntary environmental improvements by targeting its technical and financial assistance to farmers and ranchers who operate in watersheds with the greatest needs. The President's request also increases Natural Resources Conservation Service funds to \$118 million to provide annual feeding operation owners with technical assistance to develop voluntary nutrient management plans for water quality protection.
- **Forest Service:** The President calls for the establishment of "charter forests." This proposal would establish certain forests or portions of forests as separate entities outside the Forest Service structure that would report to a local trust entity for oversight. The proposed plan would avoid central bureaucracy and reduce organizational inefficiencies while emphasizing local involvement and specific programmatic goals such as ecological restoration and hazardous fuels reduction.
- **Timber Sale Reform:** The budget promotes increased competition for the Federal timber sale program by allowing conservation and recreation groups to bid on timber sales.
- **Forest Service Management Reforms:** The budget proposes co-locating 22 Forest Service and Bureau of Land Management offices by the end of 2005. It increases resources to field by reducing Forest Service indirect expenses in half by 2005, and places Forest Service personnel closer to the actual resources by relocating and reassigning Washington, DC office and regional office employees.
- **Fire Suppression:** The Forest Service Hazardous Fuels Treatments Program is funded at \$229 million, with more than 70 percent of funds directed to the wildland urban interface. Provides funds for wildfire suppression at a 10 year average of \$423 million.

### Nutrition Programs

- **WIC:** The budget cites the Special Supplemental Feeding Program for Women, Infants and Children as one of the more successful Federal programs. The budget notes that WIC has improved the nutritional intake of pregnant and post-partum mothers and their babies through education and support for purchasing nutritious foods such as milk, cheese, eggs, fruit juices, peanut butter, tuna fish, and cereals. This has led to a reduction in the adverse affects of poor nutrition and diet among lower income American children. The President recommends spending \$4.7 billion for WIC in fiscal year 2003 to serve 7.8 million women and children. The funding level would provide WIC benefits to all of the WIC-eligible population in the U.S.

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- **Food Stamps for Noncitizens:** The President's budget proposes to repeal a provision of the 1996 welfare reform law that denies food stamp eligibility to non-citizen adults under 65. The provision, originally intended to remove welfare programs as a magnet for immigration, has previously been modified to permit non-citizen children, senior citizens, and disabled individuals to obtain food stamps if they entered the United States prior to 22 August 1996, the date the welfare reform law was enacted. Under the administration's proposal, non-citizens who have resided in the United States for at least 5 years would be eligible for food stamp benefits, even if they entered the country after the enactment of the 1996 welfare reform law.
  - **Food Stamp Program Simplification:** The budget contains several proposals to simplify food stamp rules, such as replacing the vehicle limit with an allowance of one vehicle per household; standardizing the excess medical care and dependent care deductions; and increasing State flexibility in using Employment and Training funds.
  - **Food Stamp Spending Levels:** The overall mix of the President's proposals, including benefit expansions, simplification, and savings from proposals such as improved quality control and reduced error rates result in a net spending increase of \$29 million in 2003, and \$4.2 billion over 10 years.
  - **Other Child Nutrition Programs:** The budget provides funding to permit all current child nutrition programs, such as the school lunch and breakfast programs, to meet growing levels of demand and to accommodate the rising cost of food. Efforts will continue to make the meals served nutritionally healthy while improving the appeal of meals to program participants.

## **OTHER ISSUES**

### **Status Report on Select Programs**

The budget cites the Special Supplemental Feeding Program for Women, Infants, and Children [WIC] as an effective program that has been successful and cost-effective at improving the health of nutritionally at-risk women and their children. It also gives the Forest Service Operating Program low marks because as much as 60 percent of the money spent on this program goes to planning and litigation rather than to projects.

### **Performance and Management**

Some USDA financial systems do not comply with Federal financial management systems requirements or applicable accounting standards. The budget recommends USDA align processes and accounts to track the full costs of programs and measure achievement of program goals.

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## DEPARTMENT OF COMMERCE

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### SUMMARY

The President's proposal for the Department of Commerce [DOC] provides \$5.3 billion in budget authority for fiscal year 2003. That is the same as the fiscal year 2002 appropriated level. This is significant considering the over \$200 million increase included to address Census Bureau needs and planning towards the 2010 Decennial population count and other homeland security needs, including a \$31 million increase for the Bureau of Export Administration.

### KEY COMPONENTS

- **The Census Bureau:** The budget proposes a \$223-million increase for the Bureau of the Census (\$737 million total) for a variety of activities, including the Commerce Department's efforts to reengineer the 2010 Census. The goal is to continue improving the accuracy of the Census (the net undercount was reduced from 1.6 percent in 1990 to 0.06 percent in 2000) while controlling, if not reducing, its cost per home (which rose from \$32 in 1990 to \$56 in 2000). As a major part of this work, Census will launch the American Community Survey, which will provide detailed demographic data on an annual – rather than decennial – basis. During 2003, Census will be collecting data for two other cyclical censuses, the Economic Census and the Census of Governments.
- **Economic Data:** The President calls for a \$10-million increase for the Bureau of Economic Analysis (\$76 million total) to improve the statistical processing systems for its economic data and accelerate the release of major economic estimates, such as Gross Domestic Product [GDP].
- **Patent and Trademark Office:** The administration budget proposes a \$239 million increase (21 percent).
- **NIST:** The budget proposes a \$70 million increase (21 percent) for the core research at the National Institute for Standards and Technology (\$402 million total for NIST).
- **Technology Funds:** The President requests a \$172-million reduction in industrial technology services to \$121 million. The proposal is to phase out funding for the Manufacturing Extension Partnership [MEP] centers as the original authorizing

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legislation intended. The Advanced Technology Program [ATP] is reduced from \$185 million in 2002 to \$108 million in 2003 with new awards reduced to \$35 million.

- **TOPS:** The budget terminates the \$15 million Technology Opportunities Program [TOPS] which provides grants for applications of telecommunications technologies.
- **NOAA:** The President calls for a \$121 million reduction from the 2002 enacted level in overall funding for the National Oceanic and Atmospheric Administration [NOAA] to \$3.2 billion. The reduction is largely due to the elimination of earmarks and is still higher than 2001 funding.
- **EDA:** A slight reduction in funding is proposed for the Economic and Development Administration [EDA] – from \$368 million to \$350 million – to bring resources in line with congressionally authorized levels and program needs.
- **ITA:** The budget calls for a \$22 million increase (6 percent) in the International Trade Administration [ITA], but with a 2002 study of fee options to develop an appropriate model of cost recovery from firms that receive trade promotion services in the future.

## **OTHER ISSUES**

### **Status Report on Select Programs**

The President's budget rates the Bureau of the Census, the National Institute of Standards and Technology, and the National Weather Service as "effective." It rates the International Trade Administration, Advanced Technology Program, and National Marine Fisheries Service in NOAA as "unknown."

### **Performance and Management**

DOC needs to improve its competitive sourcing and financial management over the next 2 years. Its E-Government systems are sound and advanced in the context of the Federal Government, according to the President's budget.

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## DEPARTMENT OF DEFENSE

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### SUMMARY

As the lead agency for direct combat operations against terrorism, the Department of Defense is the first funding priority in the President's budget. The administration's fiscal year 2003 proposal for the Department of Defense calls for \$369.3 billion in discretionary budget authority [BA] – a \$37.8 or 12 percent increase over the previous year's appropriated level. If enacted, it would be the largest increase in the military budget in since fiscal year 1982, when President Reagan achieved a 17 percent increase.

In addition to the \$369-billion budget plan, the President has requested a \$10 billion "war reserve" that can be tapped as needed to prosecute the global war on terrorism. This is a major departure from previous practice; military contingency operations have traditionally been paid for after the fact by means of supplemental budget requests.

### KEY COMPONENTS

- **Military Pay Raise:** The budget includes a 4.1-percent across-the-board pay raise for military personnel beginning in January 2003. This proposal comes on top of this year's 4.6-percent raise.
- **Procurement:** The fiscal year 2003 budget requests \$68.7 billion for military procurement, a \$7.6-billion increase over this year's level. The procurement request is the largest since fiscal year 1993.
- **Research and Development:** The budget proposes \$53.9 billion for research, development, test, and evaluation – the seed money for the next generation of weapons. This represents a \$5.5 billion increase over this year's appropriated level. The request is the largest ever.
- **Missile Defense:** The President's budget seeks \$7.8 billion to explore technologies to protect against missile attack, the same amount as appropriated in 2002.
- **Readiness:** The operations and maintenance accounts, which fund the services' readiness to conduct military operations, receive \$140.4 billion, a \$12.7-billion increase



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over this year's appropriated level. This is the largest operation and maintenance request ever [note: some summary tables show Operations and Maintenance BA at \$150.4 billion — but that includes the “war reserve fund”].

- **Health Care:** Military health care is primarily funded by discretionary accounts within operations and maintenance. The fiscal year 2003 request calls for \$22.4 billion, a \$4.1-billion increase over this year's appropriated level. The administration seeks this increase to continue to fund the expansion of military health care mandated by the Fiscal Year 2001 Defense Authorization Act.
- **Reconfigured Submarines:** The budget provides \$1.0 billion to convert four cold war era Trident submarines from nuclear warhead ballistic missile launchers to Tomahawk cruise missile shooters.
- **Army Future Combat System:** This combination of sensors, robots and remotely fired artillery, intended to make the tank obsolete, will receive \$707 million.
- **Tactical Aircraft:** The budget requests \$5.2 billion to buy the next 23 F-22 air superiority fighters, up from \$3.9 billion and 13 aircraft this year.

## **OTHER ISSUES**

### **Status Report on Select Programs**

Weapon system cost growth is a strong concern; many programs continue to exceed cost and schedule targets. The Army's chemical demilitarization program is a particular program of concern: costs have increased more than 60 percent, from \$15 billion to \$24 billion.

### **Performance and Management**

A significant challenge is the Defense Health Program. There is currently a lack of incentives in both the internal Government system and among private contractors to control costs. The Government paid \$655 million in overruns to DOD health care contractors in 2001.

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## DEPARTMENT OF EDUCATION

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### SUMMARY

A 2.8-percent increase is requested for the agency's program level budget, increasing the total by 1.4 billion, from \$48.9 billion to \$50.3 billion. Between 1998 and 2002, the Education Department received annual increases averaging 13 percent, including a 16 percent increase last year.

The budget provides a \$1-billion increase for special education and a \$1-billion increase for aid to low-income schools (the main component of the education reform law recently signed by the President). A tax credit for parents seeking to transfer their child from a failing public school to another public or private school is proposed, as is a new charter school grant program and a school choice demonstration fund.

### KEY COMPONENTS

- **Special Education:** The budget includes a \$1-billion increase for Part B of the Individuals with Disabilities Education Act [IDEA]. The program authorizes the Federal Government to pay to the States 40 percent of the excess cost of educating schoolchildren enrolled in special education. The proposed increase, from \$7.5 billion to \$8.5 billion, would raise the Federal share from 16.5 percent to 18 percent. From 1998 through 2002, Federal IDEA funding rose an average of 19 percent a year. The proposed 2003 increase in funding is 13 percent.
- **Title I Grants to Low-Income Schools:** The President proposes an increase of \$1 billion, or 10-percent, for grants to low-income school districts, raising the total from \$10.35 billion to \$11.35 billion. The proposed increase would be allocated through the targeted grants formula, which focuses resources on the highest poverty school districts. The proposed increase is \$4.5 billion short of the "full funding" level, or authorization ceiling, for this program, the centerpiece of the new education reform law. From 1998 to 2002, Title I funding rose by an average of 12 percent annually.
- **Reading First:** A \$100-million increase is included for this program (11 percent), which was created under the recently enacted education reform law. The increase would bring total funding to \$1 billion. Reading First is designed to help States and school districts

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teach reading to children in grades K-3. Congress funded the program last year at the authorized level of \$900 million.

- **Pell Grants:** The President calls for a \$549-million increase, which would cover an expected increase in the number of students eligible for these grants to low-income undergraduates. The new funds would be insufficient to raise the size of the grant received by each student, currently set at a maximum amount of \$4,000. The budget also proposes a \$1.3 billion supplemental in 2002 to address a shortfall in the Pell account.
- **Education Tax Proposals:** The budget contains a refundable tax credit of 50 percent of the first \$5,000 in tuition, fees, and transportation costs incurred when parents transfer their child from a failing public school to another public or private school. This proposal totals \$175 million in 2003 and \$4.4 billion over 10 years. The budget also assumes a proposal allowing teachers to deduct out-of-pocket classroom expenses that has no cost in 2003, but would cost \$1.7 billion over 10 years.
- **Charter Schools and School Choice:** The budget provides \$100 million to help charter schools purchase, construct, renovate or lease academic facilities. Also, a new, \$50 million Choice Demonstration Fund is proposed, which would fund efforts to develop, implement, and evaluate innovative approaches to school choice.
- **Loan Forgiveness for Teachers:** An expansion of loan forgiveness is offered for highly qualified math, science, and special education teachers serving low income communities, from \$5,000 to a maximum of \$17,500. A similar proposal was requested last year. The proposal would cost \$81 million in 2003, and \$243 million over 10 years.
- **Minority Colleges:** Historically Black Colleges, Universities, and Graduate Institutions receive an overall increase of \$9 million, from \$255 million to \$264 million. Hispanic-Serving Institutions receive a \$3.1-million increase, from \$86 million to \$89.1 million. The President has pledged to increase funding for minority college programs by 30 percent between 2001 and 2005.
- **Significant Reductions and Eliminations:** The budget recommends the following:
  - Large reductions in two programs, much of whose budgets were steered toward congressional earmarks in 2002. The Fund for the Improvement of Education [FIE] is reduced from \$833 million to \$84 million, and the Fund for the Improvement of Postsecondary Education [FIPSE] is reduced from \$181 million to \$39 million.
  - Due to concerns about its effectiveness, the Safe and Drug Free Schools Program is reduced by \$103 million by eliminating funding for national activities involving expelled students, alcohol abuse, and mentoring.

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- The Even Start family literacy program is reduced by \$50 million, allowing a redirection of funds toward the President's Reading First program.
  - The LEAP program [Leveraging Educational Assistance Partnerships] is eliminated. LEAP awards matching grants for State student aid scholarships. The administration argues that LEAP fulfilled its purpose by stimulating all States to establish need successfully encouraging -based grant programs for college students.

## **OTHER ISSUES**

### **Status Report on Select Programs**

The budget states: "[This agency] has almost no programs with evaluations reflecting overall positive performance, and very few of its nearly 200 separate grant programs have objective data to gauge their effectiveness." Regarding the No Child Left Behind Law, it states: "While most of the President's objectives were met in the new Act, some were not. Congress has continued about two dozen programs that the administration sought to eliminate because they were narrowly focused or ineffective, and added a half dozen more programs that the administration did not think were necessary." *Thirty-five programs are proposed for termination in this budget, freeing up nearly \$1 billion for high-priority activities.*

### **Performance and Management**

The administration proposes to allow the Internal Revenue Service to match the income reported on student aid applications with tax return data. An estimated \$138 million would be saved in 2003. This savings, however, is not assumed in the President's budget.

In an attempt to reduce administrative costs and better target resources, the budget proposes to transfer the agency's \$936 million annual budget for student aid into a single, discretionary account. This budget is currently divided among various accounts, both discretionary and mandatory.

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## DEPARTMENT OF ENERGY

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### SUMMARY

The President's budget proposal for the Department of Energy [DOE], both civilian (functions 250 and 270) and defense (function 050), provides \$21.9 billion in budget authority for fiscal year 2003. This is \$952 million, or 4.5 percent, above the fiscal year 2002 appropriated baseline (non-Emergency Response Fund) level. The President's budget includes the following initiatives:

### KEY COMPONENTS

- **Stockpile Stewardship:** The 2003 President's budget requests \$6.1 billion for nuclear stockpile stewardship, \$455 million above the 2002 level.
- **PNGV:** The budget replaces the Partnership for a New Generation of Vehicles [PNGV] 80 mpg car with Freedom CAR [Cooperative Automotive Research], a hydrogen-based fuel cell car. Freedom CAR is funded solely by DOE, not inter-agency like PNGV, and will strictly adhere to cost-sharing requirements with limited Federal support of automakers.
- **Weatherization Assistance:** The budget increases conservation through the Department of Energy's Weatherization Assistance Program to help low-income families who live in poorly insulated housing or have insufficient heating or cooling systems. The budget proposes to weatherize 123,000 homes in 2003, a 17-percent increase over 2002.
- **Coal Research:** The new Coal Research Initiative totals \$326 million in fiscal year 2003. The President plans to spend \$2 billion over 10 years to reduce the environmental impact of using coal to generate electricity.
- **ANWR:** The budget allows safe and controlled oil and gas exploration by opening a small part of the Arctic National Wildlife Refuge [ANWR] generating \$3.2 billion in bonus bid receipts, mostly in 2004. Of this revenue, \$1.2 billion will supplement renewable energy R&D spending, \$1.6 billion is the State of Alaska's share, and \$400 million will be devoted to land conservation and reducing maintenance backlogs on public lands in the Department of the Interior.

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- **Power Marketing Administrations:** The budget proposes that, in 2003, the Southeast Power Authority, the Southwest Power Authority, and the Western Area Power Authority begin directly financing the Corps of Engineers' power-related operating and maintenance expenses.
  - **Tax Incentives:** The President's budget includes more than \$9 billion in tax credits and other tax incentives over the next 10 years (2003-2012) to increase energy production and promote energy conservation: \$3 billion for a new tax credit for the purchase of hybrid and fuel cell vehicles; \$2 billion in modified tax treatment of the costs of decommissioning nuclear power plants; \$1.8 billion to extend and modify the tax credit for producing electricity from certain renewable sources such as biomass and wind; \$1.1 billion for a tax credit for energy produced from landfill gas; \$1.1 billion for a tax credit for combined heat and power (co-generation) properties; and \$72 million for a tax credit for residential solar energy systems. The tax exemption or credit for ethanol also is extended.

## **OTHER ISSUES**

### **Status Report on Select Programs**

The President's budget rates the Naval Reactors program and Office of Science as "effective;" the National Nuclear Security Administration's Weapons Activities as "moderately effective"; and the Defense Environmental Restoration and Environmental Management programs, the fossil and nuclear R&D, and science and technology programs as "ineffective." The budget seeks to redirect resources away from lesser performing programs to more effective or higher priority programs.

### **Performance and Management**

E-Government, especially management of DOE's information technology investments, is DOE's weakest link. One additional management area particularly important for DOE is contract reform and project management. DOE spends more than 90 percent of its budget through contracts.

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## DEPARTMENT OF HEALTH AND HUMAN SERVICES

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### SUMMARY

For the Department of Health and Human Services [HHS], the President proposes \$491.9 billion in budget authority for fiscal year 2003, a 1-year increase of \$23.4 billion. The budget would complete the 5-year effort to double the National Institutes of Health [NIH] funding by providing \$27.3 billion to NIH, an increase of \$3.9 billion over fiscal year 2002. The Centers for Disease Control and Prevention [CDC] would receive \$4.0 billion. The President also proposes to reauthorize the Temporary Assistance to Needy Families [TANF] block grant at \$16.7 billion annually. TANF is the Nation's primary welfare program for low-income families with children. Medicare spending, net of premiums, would be \$234.4 billion, an increase of \$8.0 billion over 2002. Federal Medicaid spending would increase \$14.0 billion, to \$158.8 billion. Medicare and Medicaid are administered by the Centers for Medicare and Medicaid Services [CMS] in HHS.

### BIOTERRORISM

#### Program Summary

As noted in the section on "Protecting the Homeland," strengthening efforts to prevent and address bioterrorism is a priority for the Department of Health and Human Services [HHS]. HHS is the lead agency in the effort, with assistance from the Centers for Disease Control and Prevention [CDC], the Food and Drug Administration [FDA], the Health Resources and Services Administration [HRSA], and the National Institutes of health.

#### Key Components

- **Spending:** Total spending for HHS bioterrorism efforts would rise from \$2.8 billion in fiscal year 2002 to \$4.3 billion in fiscal year 2003.
- **Framework:** The fiscal 2003 budget counters the threat of bioterrorism with enhancements in hospitals and other public health facilities, research and development, pharmaceutical stockpile, and a national information network for better detection of biological attacks as well as natural disease outbreaks. (Please see the section on "Protecting the Homeland" for additional details.)

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## NATIONAL INSTITUTES OF HEALTH AND OTHER HEALTH AGENCIES

### Agency Summary

The President's fiscal year 2003 budget proposes to complete the doubling of the National Institutes of Health [NIH] budget over 5 years, to build on the 2002 Community Health Centers and National Health Service Corps Presidential Initiative, and several health tax provisions.

### Key Components

The President's budget includes the following proposals:

- **Doubling NIH:** The budget proposes to increase NIH funding by \$3.9 billion, increasing total NIH funding to \$27.3 billion. This would complete the doubling of the NIH budget over 5 years, from the 1998 level of \$13.6 billion. The proposed NIH budget includes \$5.5 for cancer research at the National Cancer Institute and other NIH institutes.
- **Community Health Centers:** The budget builds on the 2002 Community Health Centers Presidential Initiative to increase the number of health center sites by 1,200 to serve an additional 6.1 million people by 2006. An additional 178 sites would be added in 2003.
- **Health Tax Provisions:** The biggest of the President's Health Tax Credit proposals is a new refundable tax credit for low- and moderate-income individuals and families without health insurance, totaling \$35.6 billion over over 5 years. In addition, the President's budget includes provisions to improve and permanently expand Medical Savings Accounts [MSAs]; a deduction for long-term care insurance premiums; an additional personal exemption to caretakers of family members in need of long-term care services; and improved flexible spending accounts [FSAs]. These proposals total \$11.0 billion over 5 years.

## WELFARE

### Program Summary

In the area of income security and welfare, the President's budget proposes the reauthorization of the 1996 welfare reform law, which replaced the Aid to Families with Dependent Children [AFDC] program with the Temporary Assistance to Needy Families [TANF] block grant. The TANF block grant provides \$16.7 billion per year to States to support low income families while they transition from welfare to work. The President's 2003 budget recommends reauthorization of TANF with no change in funding levels.



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The President's budget also recommends increased participation by faith-based providers of social services in the effort to improve the lives of low income Americans.

### **Key Components**

- **Reauthorization of TANF:** The budget recommends reauthorization of this block grant to States – the primary Federal welfare program for low-income families with children – at the current level of \$16.7 billion annually. Minor changes to the law are proposed, such as restoring the defunct contingency fund, from which States may borrow during an economic downturn; reauthorizing the lapsed supplemental TANF grants to States with historically low benefit levels; and eliminating the illegitimacy reduction bonus and using those funds instead to conduct research on successful initiatives that reduce out of wedlock births.
- **Tax Credits for Charitable Giving:** The President again proposes new tax credits to encourage charitable giving, worth \$2 billion in 2003 and \$41 billion for the period 2003-2012. Taxpayers who do not itemize could claim on their 2002 returns \$100 if single and \$200 if married. Those levels would rise, reaching \$500 for singles and \$1,000 for married couples in 2012.
- **Individual Development Accounts [IDAs]:** The administration proposes allowing financial institutions to deduct up to \$500 per year in matching funds that they provide to low-income persons who open IDA bank accounts as a means of building assets for financial independence. The administration seeks the creation of 900,000 such accounts over the next 6 years.
- **Compassion Initiatives:** The budget contains the following proposals aimed at voluntary charities or faith-based organizations:
  - \$110 million for a Compassion Capital Fund. The funds would provide assistance to faith-based community organizations that provide services in low-income communities.
  - \$10 million for Maternity Group Homes to assist young unwed mothers.
  - \$25 million for mentoring children of prisoners.
  - \$20 million for a Responsible Fatherhood Initiative to encourage noncustodial fathers to play a role in their children's lives and to help these fathers to economically support their children.
- **Child Support Enforcement:** The budget proposes to allow States to provide children of TANF participants to obtain the full amount of child support collected on their behalf.

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Under current law, half of those collections must be returned to the Federal Government. The budget also proposes offering States Federal matching funds of up to \$100 per month when the States pass along their share of child support collections to the custodial parent. These initiatives are paid for by proposals to strengthen State child support collection tools, as well as imposing a \$25 user fee on non-TANF families that benefit from State child support enforcement programs. The net cost of the child support provisions is \$66 million in 2003 and \$186 million over 10 years.

- **Child Welfare and Foster Care:** The budget proposes to increase funding for the Safe and Stable Families program by \$130 million in 2003 to provide additional resources to help children remain with their at-risk families rather than enter foster care. It also proposes an increase of \$60 million in the Independent Living program to provide vouchers worth \$5,000 to certain children who are aging out of foster care. The vouchers would be for education or training to help recipients become financially independent.
- **Social Services Block Grant:** The President's budget provides \$1.7 billion for the block grant in 2003, the same funding level available in 2002.
- **Head Start:** The budget increases funding for Head Start by \$130 million in 2003 to maintain program participation. But the budget also recommends reforming the program by returning it to its original purpose of preparing young children to be ready to learn when they enter school. The administration is appointing a task force to recommend improvements in Head Start and to prepare for transferring it to the Department of Education.
- **LIHEAP:** The budget proposes \$1.7 billion in funding for the Low-Income Home Energy Assistance Program [LIHEAP]. This level contains a contingency fund of \$300 million to meet unanticipated needs.
- **Child Care:** The budget funds the discretionary Child Care and Development Block Grant at \$2.1 billion and the mandatory Child Care Entitlement to States under the current law formula at \$2.7 billion for 2003.
- **Community Services Block Grant [CSBG]:** The budget funds CSBGs at \$570 million in fiscal year 2003, a reduction of \$80 million from the 2002 level of \$650 million. The administration notes that the grants provide a small fraction of the budget to a largely static group of organizations. Moreover, it contends, little performance data exist to show the outcome of CSBG funding. The reduction was transferred to other higher-priority high performing programs.

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## MEDICARE

### Program Summary

The President's budget emphasizes providing a prescription drug benefit as a component of strengthening the program. The budget proposes \$190 billion over 10 years to fundamentally reform Medicare, addressing its financial liabilities and management problems as well as modernizing the program and offering a prescription drug benefit. The key components of the President's plan include the "President's Framework for Strengthening Medicare" and several transitional proposals to offer immediate prescription drug assistance to beneficiaries. These transitional proposals include a Medicare Prescription Drug Card Program; a "Pharmacy Plus" Model Waiver Program; Medicare Low-Income Drug Assistance; Additional Funding for Private Health Insurance Plans; and Additional Medigap Options for Prescription Drugs.

### Key Components

- **President's Framework for Strengthening Medicare:** This component of the President's Medicare reform plan is a comprehensive reform of the Medicare Program, costing \$28.2 billion over 5 years. Among other things, this proposal seeks to strengthen the program's long-term financial security, reform Medicare's regulatory procedures, reduce waste, fraud and abuse, provide better coverage for serious illnesses, and add a prescription drug benefit as part of modernized Medicare.
- **Immediate Assistance for Seniors as Part of Legislation to Strengthen Medicare:** Full implementation of the President's Framework for Strengthening Medicare will take several years. In the mean time, the President proposes the following initiatives to give Medicare beneficiaries immediate help for their medications:
  - *Medicare Prescription Drug Card Program:* This initiative would create a Medicare-endorsed Drug Card Program that allows Medicare beneficiaries to pool together to use their buying power to get better prices from drug manufacturers. Under this budget-neutral program, private Drug Card sponsors would secure manufacturer rebates and pass the savings to beneficiaries.
  - *Medicare Low-Income Drug Assistance:* Under current law, some low-income Medicare beneficiaries are also eligible for drug coverage under Medicaid. This proposal, costing \$20.7 billion over 5 years, would give States the option to expand drug coverage to all Medicare beneficiaries up to 100 percent of poverty at current Medicaid matching rates. In addition, the President's proposal would offer States an incentive to further expand drug coverage between 100 and 150 percent of poverty with the Federal Government paying 90 percent of the cost, with the States covering the remaining 10 percent.

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- *“Pharmacy Plus” Model Waiver Program:* The budget neutral “Pharmacy Plus” Program would give States the option to use their Medicaid Programs to extend drug coverage up to around 200 percent of poverty. In addition, the program would give States the flexibility to use private-sector cost-control mechanisms, such as preferred drug lists, that are currently discouraged under Medicaid law.
  - *Additional Funding for Private Health Insurance Plans:* Although many beneficiaries prefer Medicare+Choice plans because of their enhanced benefits, including prescription drug coverage, the Medicare+Choice payment system has failed to reflect rising health costs. Consequently, hundreds of Medicare+Choice plans have left Medicare or reduced their service areas. This proposal, costing \$3.7 billion over 5 years, would offer additional funds for Medicare+Choice plans to better reflect increased health care costs.
  - *Additional Medigap Options for Prescription Drugs:* The President proposes the addition of two new Medigap plans to the Medicare Program. (Currently, there are 10 standard “Medigap” plans that offer coverage of certain Medicare deductibles, copayments, and some services not covered by Medicare.) These new plans would offer prescription drug coverage and protection against catastrophic illness. The proposal would save \$600 million over 5 years.
- **Miscellaneous Provisions:** The President’s Medicare proposal also includes a number of miscellaneous provisions. These include competitive-bidding for durable medical equipment [DME], certain budget-neutral provider payment adjustments, Medicare Secondary Payer [MSP] reform, reform of payments for the limited number of prescription drugs currently covered under Medicare, extending the subsidy of Medicare premiums for certain qualified individuals, and graduate medical education [GME] payment reform.

## MEDICAID

### Program Summary

The President’s fiscal year 2003 budget reviews the administration’s progress over the past year in reforming the way Medicaid and the State Children’s Health Insurance Program [SCHIP] provides health coverage to the poor and near poor. In consultation with the States, the administration has developed ideas to increase State flexibility. States have greater flexibility to use private health insurance, when possible, and to coordinate with employment-based insurance for those who have access to it.

Under the President’s budget, Medicaid for fiscal year 2003 includes outlays of \$159 billion. This represents a net increase of \$14 billion, or 9.7 percent, over the fiscal year 2002 level. Over the 5-year period 2003 to 2007, total outlays for Medicaid are \$930 billion. About \$3.2 billion is

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available to the States for SCHIP programs in addition to about \$11 billion in unspent funds from prior years.

The budget assumes savings resulting from the publication of a final rule on 17 January, reducing the Medicaid upper payment level [UPL] from 150 percent of the allowable Medicare levels to 100 percent of those levels. Under the UPL loophole, there is a financial incentive for States to make higher than usual payments for care provided at non-State government facilities – namely, county and city facilities – allowing States to claim higher Federal Medicaid matching dollars. States then require these facilities to transfer the excess Medicaid costs back to the State. States then use these funds to cover part of the State Medicaid share or for other purposes.

### **Key Components**

The President's budget includes the following proposals:

- **Reform of Medicaid and SCHIP:** In cooperation with the States, the administration will develop ideas to increase coverage and efficiency in the Medicaid and SCHIP programs by giving States more flexibility to meet health care coverage goals. As a first step, the administration introduced the Health Insurance Flexibility and Accountability [HIFA] demonstration initiative. In fiscal 2003, the administration will build on HIFA by giving the States the statutory authority to provide broader coverage to low-income uninsured Americans and to design innovative programs without seeking waivers.
- **Availability of SCHIP Funds:** The administration proposes to extend the availability of expiring SCHIP funds until 2006. These funds would otherwise be reallocated among States which have exhausted their funds and, if not used, a year later the funds would be returned to the Treasury.
- **Program Integrity:** The budget proposes to strengthen program integrity relating to the States use of upper payment limits and provision of school-based services provided to Medicaid-eligible children.
- **Medicaid Prescription Drugs:** The "Pharmacy Plus" Program (discussed under Medicare) would give States flexibility through waivers to extend Medicaid drug coverage to Medicare beneficiaries with incomes up to 200 percent of poverty. In addition, the program would give States the flexibility to use private-sector cost-control mechanisms, such as preferred drug lists, that are currently discouraged under Medicaid law.

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## **OTHER ISSUES**

### **Status Report on Select Programs**

The budget assessments of HHS programs range from ineffective – for Health Resources and Services Administration’s [HRSA] health programs and HRSA’s Community Access Program – to effective for HRSA’s community health centers, HRSA’s national health service corps, Centers for Disease Control and Prevention’s childhood immunizations program, and the Administration for Children and Families’ Temporary Assistance for Needy Families [TANF]. The Indian Health Service is rated as moderately effective.

### **Performance and Management**

The budget states that in few Federal agencies is the need for organizational reform more acute than at HHS, where a long history of decentralized decision-making has produced a Department with 13 operating divisions functioning with relative autonomy. The result is a patchwork of uncoordinated and duplicative management practices that hinder its efforts to accomplish its mission efficiently.

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## DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

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### SUMMARY

The President's Budget provides \$31.5 billion in discretionary budget authority for Housing and Urban Development [HUD] programs for fiscal year 2003, an increase of 2 percent over the estimated funding level of \$29.5 billion in fiscal year 2002.

The budget seeks to achieve significant improvements in the quality of services HUD provides and strengthen overall management of HUD programs primarily by redirecting resources from lower-priority activities to programs which are more effective, or which are more critical to meeting the needs of lower-income American families.

### KEY COMPONENTS

- **Tax Credits:** The budget provides a new tax credit to developers to encourage the construction of affordable single-family housing. The tax credit of up to 50 percent of the cost of constructing a new home or rehabilitating an existing property would be available to developers who sell the properties to home buyers who have incomes 80 percent or below the area median income.
- **Section 8 Contracts:** The budget provides for the renewal of all expiring Section 8 Housing subsidy contracts, while expanding the number of Section 8 vouchers by 34,000.
- **Minority Home Ownership:** The President's plan funds initiatives to increase the overall home ownership level among minority families to 50 percent, including a three-fold increase, or \$65 million, for the Self-Help Homeownership Opportunity Program to provide competitive grants to non-profit faith-based and community-oriented organizations that support home ownership. The budget quadruples the President's Down Payment Assistance Initiative from its 2002 level to \$200 million. The funds provide State and local governments matching grants to provide down payment assistance to first time home buyers.
- **Affordable Housing:** The budget includes a \$100-million increase for the HOME block grant. This will produce about 23,000 new affordable rental units in 2003, and

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rehabilitate another 23,000. The Low-Income Housing Tax Credit will also generate about 100,000 units of moderate-rent housing a year.

- **Public Housing:** Public housing programs are reformed by allowing Public Housing Authorities [PHAs] to finance the capital needs of their properties with private mortgages, while the Federal Government will continue to subsidize operating and debt service costs not met by tenant rent payments. Funds obtained will be used to meet the \$20 billion in modernization costs estimated over the next 10 years while improving the overall number of units that meet HUD's physical quality standards. Additionally, tenants will be given the flexibility to move within the Housing Authority's properties after one year while retaining their subsidy, thus introducing competitive market forces and choice into the program.
- **Homelessness:** The President seeks to end chronic homelessness over the next decade by establishing a base measurement of the chronic homeless population in 2003 and setting a goal of reducing the number of chronically homeless persons by up to one-half over 5 years. Funding for homeless programs will increase to \$2.2 billion in 2003, of which \$1.1 billion will be provided within HUD. Management of major homeless programs will be consolidated into five agencies rather than seven.
- **Community Development Block Grants [CDBG]:** The budget proposes a legislative change to reduce grants to the wealthiest 1 percent of eligible communities, defined as those with per-capita incomes of twice the national average. Savings from the proposal will fund a regional initiative to increase affordable housing, economic opportunities, and infrastructure within the Colonias. The Colonias are communities within 150 miles of the U.S.-Mexican border that lack adequate infrastructure and basic services such as sewers and electricity. CDBG formula funds would also be increased by \$95 million in fiscal year 2003.
- **Poor-Performing and Duplicative Economic Development Programs:** The budget eliminates Rural Housing and Economic Development Grants and Round II Empowerment Zone grants because of a lack of demonstrated effectiveness. Since 1999, these two programs have spent \$430 million. Savings will be reinvested in the CDBG program.

## OTHER ISSUES

### Status Report on Select Programs

The budget notes that the Public Housing program is ineffective, because the 1.2 million people it serves are trapped in poor quality housing concentrated in high-poverty or isolated areas. Homeless programs and the Community Development Block Grant are rated as having "unknown" effectiveness. Housing vouchers and lead paint abatement are classed as effective



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programs which have increased the availability of decent affordable housing for low income families while reducing the exposure of children to hazardous lead paint residue.

### **Performance and Management**

The budget identifies numerous weaknesses in HUD's performance and management, including an aging workforce that is not positioned well to do the work needed; deficiencies in financial management, which contribute to overpayments of rent subsidies; lack of proper supervision of contractors; and insufficient measurement of the outcomes resulting from HUD programs.

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## DEPARTMENT OF THE INTERIOR

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### SUMMARY

The President's budget proposal for the Department of Interior [DOI] provides level funding of \$10.5 billion in discretionary budget authority. Funding reductions include the Bureau of Land Management [BLM] (-\$36 million) and the U.S. Geological Survey [USGS] (-\$46 million) DOI agencies that saw increases include the National Park Service [NPS] (+\$34 million), the Bureau of Indian Affairs [BIA] (+\$24 million), and the U.S. Fish and Wildlife Service [USFWS] (+\$8 million).

### KEY COMPONENTS

The President's budget includes the following initiatives related to the environment and natural resources:

- **NPS O&M Backlog:** The budget provides more than \$660 million in funds for reducing the National Park Service's \$5 billion backlog in operations and maintenance. This year's budget request represents nearly a doubling of this account since 1996 (\$354 million) and follows an unprecedented 30 percent increase in 2002.
- **USFWS Refuges:** The President adds \$57 million for operations at the U.S. Fish and Wildlife Service's refuge system—an 18 percent increase above last year's request of \$319 million. \$52 million of this amount would go toward the highest priority operations, maintenance, and planning needs. The remaining \$5 million would be spent on challenge cost-share programs on wildlife refuges. The wildlife refuge budget supports 538 wildlife refuges and a number of wildlife education programs.
- **LWCF:** The plan fully funds the Land and Water Conservation Service at over \$900 million to promote conservation efforts.
- **ANWR:** The budget also provides for the safe and ecologically controlled resource exploration of oil and natural gas in Alaska's Arctic National Wildlife Refuge and other public lands, generating \$3.2 billion in total revenue. Of that total, \$400 million would go to the Department of the Interior for public land conservation and maintenance.

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- **Conservation Tax Credit:** Incentives for private, voluntary land protection are included through a 50-percent capital gains tax exclusion.
  - **Endangered Species:** The President calls for \$126 million for the USFWS' Endangered Species program which supports the direct efforts of the FWS to implement the Endangered Species Act. The budget also includes \$25 million to help carry out the "reasonable and prudent" alternative to the Columbia Basin biological opinion. The administration expects to remove five species off the ESA list in 2003 because of recovery measures.
  - **Cooperative Conservation Incentive [CCI]:** The budget allocates under CCI \$100 million in matching funds for natural resource conservation projects. Half of these funds would be allocated through cost-shared programs between non-Federal partners and various DOI agencies. The other half would be distributed to States as part of the LWCF State grant program.
  - **NPS Natural Resource Challenge:** The budget increases by \$18 million funding for this initiative which is designed to collect and inventory baseline park resources such as nitrogen levels in streams and populations of waterbirds.
  - **Grazing:** The Bureau of Land Management expects to process approximately 1,500 expiring grazing permits, allowing the backlog to be completely eliminated by 2004.
  - **Energy:** In addition to ANWR, the President's energy policy includes promoting enhanced oil and natural gas recovery from existing wells through new technology, placing a higher priority on developing alternative energy sources that may reduce our dependence on foreign oil and eventually replace fossil fuels, and increasing domestic coal production.
  - **Energy Leases and Research:** The budget increases the Bureau of Land Management [BLM] budget by \$350,000 to improve access for geothermal energy leasing in California, Nevada, Utah, Oregon, and New Mexico. The U.S. Geological Service [USGS] also receives an increase of \$500,000 for geothermal energy research and information.
  - **Bureau of Indian Affairs [BIA]:** The budget places new emphasis on improving academic performance at BIA schools, and continues the current initiative to eliminate the school maintenance and repair backlog. The President also proposes to use competition to improve the academic performance at the worst performing BIA-operated schools. Following tribal consultations, the BIA will solicit private entities to manage those schools that the tribes do not elect to contract themselves through self-determination grants. Finally, the administration proposes an increase of \$84 million to remedy deficiencies in the financial control systems of Indian trust funds.
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## **OTHER ISSUES**

### **Status Report on Select Programs**

Cites the Bureau of Indian Affairs School Performance and the National Fish Hatchery System as ineffective programs. Positive reviews are given to the National Fish Wildlife Refuge System and the Offshore Minerals Management program.

### **Performance and Management**

Due to problems with its tribal trust accounting, the DOI cannot provide assurances that its trust management systems and internal controls meet Federal standards. All other DOI components do meet these standards.

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## DEPARTMENT OF JUSTICE

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### SUMMARY

Consistent with the top priorities of the President, the Department of Justice [DOJ] will have a major role in fighting terrorism and ensuring homeland security. The President's budget proposes to spend \$30.2 billion in budget authority [BA] for the Department in fiscal year 2003 – a \$3.4-billion, or 13-percent, increase over 2002 spending. Specifically, a proposed \$2.0 billion would go toward initiatives for combating terrorism.

### KEY COMPONENTS

- **Federal Bureau of Investigation [FBI]:** The budget increases FBI spending to \$4.44 billion, an increase of \$814 million, or about 22 percent (excluding the counterterrorism supplemental funding). Much of the increase will be used for improving information technology and acquiring new advanced surveillance aircraft. The budget will also fund an additional 263 special agents. A total of \$186 million will be used for information technology infrastructure and additional upgrades.
- **Immigration and Naturalization Service [INS]:** The budget sets funding for the INS at \$6.5 billion, an \$852-million, or 15-percent, increase over 2002 spending (excluding the counterterrorism supplemental). It provides for an increase of 570 Border Patrol agents and 1,160 inspection agents. It also includes funds for improving border and information technology and surveillance equipment, including aircraft and remote operated infrared cameras along isolated sections of the border.
- **Drug Enforcement Administration [DEA]:** The budget increases DEA spending to \$1.7 billion, an increase of \$100 million, or about 7 percent, including funding for an additional 55 agents.
- **U.S. Marshals Service:** To increase security at or around Federal judicial buildings, the President's budget increases funding for the U.S. Marshals service to \$737 million, an increase of \$88 million, or about 14 percent (excluding the counterterrorism supplemental), and will allow for an additional 190 U.S. Marshals.

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- **Federal Bureau of Prisons [BOP]:** The budget calls for a total of \$4.6 billion for BOP spending. This is a \$17 million, or 0.6 percent, decrease in BOP spending. The change reflects proposed alternatives to prison construction, but would add an additional 995 correctional officers.
  - **Office of Justice Programs [OJP]:** The budget sets OJP funding at \$3.8 billion, \$1.2 billion, or about 33 percent, less than the prior year. This is primarily attributed to the funding consolidation efforts to aid “first responders,” specifically the transfer of the Office for Domestic Preparedness to the Federal Emergency Management Agency.
  - **State and Local Law Enforcement Assistance/Community Oriented Policing Service [COPS]:** In an effort to streamline support for State and local law enforcement, the budget consolidates a number of duplicative State and local law enforcement accounts and establishes funding at \$2.1 billion. This amount is \$1.3 billion, or almost 60 percent, less than the prior year.
  - **Election Reform Grants:** The budget includes \$400 million for a new DOJ matching grant program for localities to take advantage of improved voter technologies and administration.

## **OTHER ISSUES**

### **Status Report on Select Programs**

The President’s budget reports that the Immigration services were virtually ineffective due to the unacceptable large application backlogs and lengthy processing times for those who wish to legally enter the United States. It further reports that the effectiveness of COPS and other State and Local Grant Programs is virtually unknown as the net effect on police hiring and national crime rates is uncertain, and due to the widely varying program objectives and lack of performance measures of the various other programs.

### **INS Reform and Restructuring**

The INS has suffered from systemic problems the last few years, particularly those related to INS’ dual missions of service and enforcement. These systemic problems include: competing priorities; insufficient accountability between field offices and headquarters; over-lapping organizational relationships; and lack of consistent operations and policies. To address these problems the President plans to restructure and split the INS into two agencies with separate chains of command and accountability, reporting to a single policy leader in the Department of Justice. One agency will be focused exclusively on service and the other will be focused exclusively on law enforcement.

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## DEPARTMENT OF LABOR

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### SUMMARY

The Labor Department budget is reduced by \$900 million, or 7 percent, from \$12.3 billion to \$11.4 billion. Job training is cut by \$476 million. The budget proposal anticipates an actual increase in job training services provided, however, for two reasons: carryover of \$1.3 billion in unspent resources from State formula grant training and employment programs; and an expected carryover into 2003 of \$3 billion of the \$4 billion in National Emergency Grants [NEGs] funding proposed as part of the President's economic stimulus package. NEG funding can be used to retrain workers who lost jobs due to large-scale layoffs. The budget request, therefore, anticipates an increase of 36 percent in available job training funds in 2003, and 500,000 to 800,000 more participants in job training than the 2.2 million expected in 2002.

### KEY COMPONENTS

- **Consolidation of Job Training Programs:** The budget would reduce the number of job training programs in the Federal Government from 48 to 28. Job training programs are identified in 10 different Federal agencies.
- **Job Corps:** The budget proposes an increase of \$73 million, or 5 percent, for the Job Corps. This would increase funding for teacher pay and new residential training centers. The program budget would rise from \$1.46 billion to \$1.53 billion.
- **Closing Ineffective Programs:** Two programs proven to be ineffective are terminated: the Migrant and Seasonal Farm worker program, and the National Skills Standard Board.

### OTHER ISSUES

#### Status Report on Select Programs

The only three programs identified as "effective" in the Labor Department are the Job Corps, the Bureau of Labor Statistics, and the Pension Benefit Guaranty Corporation.

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### **Performance and Management**

Both short and long term reforms are proposed as part of a comprehensive reform of the Unemployment Insurance [UI] and Employment Service [ES] systems. Near-term reforms include an extension of unemployment benefits by up to 13 weeks and an immediate distribution to the States of \$9 billion in excess funds from the U.S. Treasury's Unemployment Trust Fund. In the long term, it is proposed that States run the UI and ES programs.



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## DEPARTMENT OF STATE AND INTERNATIONAL ASSISTANCE PROGRAMS

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### SUMMARY

As part of the War on Terrorism, the Department of State and international assistance programs play a vital role in maintaining and expanding support of the international coalition against terrorism. The administration's fiscal year 2003 proposal for International Affairs [Function 150] calls for \$25.4 billion in BA and \$22.5 billion in outlays – a \$1.4 billion or 5.9 percent increase over the previous year's appropriated level.

### KEY COMPONENTS

- **Military Assistance:** The budget increases and targets military assistance to sustain key countries supporting the United States in the war on terrorism by increasing Foreign Military Financing [FMF] by \$457 million (not including the fiscal year 2002 emergency supplemental), or 12.5 percent. It also increases funding for International Military Education and Training [IMET] by \$10 million, or 14.3 percent.
- **Nonproliferation:** Efforts to diminish the threat of the proliferation of nuclear and biological weapons are expanded, as are measures to train foreign law enforcement and armed services to improve their counter-terrorism capabilities. The budget increases funding for Nonproliferation, Anti-Terrorism, Demining, and Related programs by \$59 million (not including the fiscal year 2002 emergency supplemental), or 18.8 percent.
- **Drug Trafficking:** The budget attacks narcotics trafficking in source countries through training, equipment, and law enforcement cooperation. It increases funding for the Andean Counterdrug Initiative by \$86 million, or 13.3 percent.
- **Development Assistance:** Funding to support bilateral economic assistance, the Child Survival and Health Program, international HIV/AIDS programs, and international environmental programs is increased by \$128 million, or 4.9 percent.
- **International Financial Institutions:** The budget increases funding for international financial institutions by \$185 million, or 17.2 percent. These institutions include the

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World Bank, its associated regional banks, and the International Development Association. The administration's proposal links U.S. support for international financing institutions to performance.

- **Global Environmental Protection:** The administration plan increases the U.S. commitment to preserving the world's tropical forests, and promotes environmental stability by increasing funding for the Global Environment Facility by \$78 million, or 77.2 percent.
- **Peace Corps:** The budget increases funding for the Peace Corps by \$42 million, or 15.1 percent.
- **Export-Import Bank:** The loan subsidy for the Export-Import Bank is reduced by \$186 million, or 25.6 percent. The reduction in appropriations will not, however, result in a reduction in Export-Import Bank lending. This is because OMB and the Export-Import Bank have developed a new methodology of risk assessment that more accurately estimates the cost to the U.S. Government of a country's default; this methodology permits a 37 percent reduction in appropriations to maintain the current level of lending, thus even with reduced appropriations, Export-Import Bank lending is expected to be as much as 10 percent greater than in fiscal year 2002.
- **Diplomatic Security:** The administration focuses on providing employees at U.S. diplomatic missions with safe, secure, and functional facilities. The budget increases funding for the State Department's Diplomatic and Consular Programs by \$310 million (not including the fiscal year 2002 emergency supplemental), or 8.4 percent, which includes an increase in spending for worldwide security upgrades of \$65 million, or 13.3 percent. Nonsecurity-related construction of overseas facilities, including embassies, is increased \$35 million or 233.3 percent, and ongoing construction and maintenance by \$57 million, or 12.8 percent.
- **Global Broadcasting:** The budget also strengthens global broadcasting and public diplomacy to communicate American ideals and beliefs to vital audiences in countries in conflict and transition, especially in the Middle East, by increasing funding for International Broadcasting Operations by \$40 million, or 9.1 percent.

## OTHER ISSUES

### Status Report on Select Programs

The President's budget states that the U.S. has spent more than \$2.9 billion on non-security assistance to Russia with mixed, and often disappointing, results. The administration is considering restructuring the economic assistance program for Russia and is developing a comprehensive set of benchmarks for use in management and funding decisions.

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### **Performance and Management**

The State Department is undertaking several initiatives to improve the performance and management of its programs, and a review of overseas staffing to identify the number of U.S. employees abroad, which agencies they represent, their cost, and their purpose.

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## DEPARTMENT OF TRANSPORTATION

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### SUMMARY

As demonstrated by the terrorists attacks of 11 September 2001, the Department of Transportation [DOT] is on the front line in the war against terrorism – and the President’s budget reflects this recognition. The major DOT homeland defense initiatives include the first full year of funding for the Transportation Security Administration [TSA] to provide security screening of airline passengers; the deployment of Federal Air Marshals to provide security on commercial aircraft; and the United States Coast Guard enhancing port security and deploying Sea Marshals to secure commercial passenger and cargo vessels as they enter and exit U.S. ports. The administration’s fiscal year 2003 proposal for Transportation calls for \$64.3 billion in BA and \$60.0 billion in outlays – a \$388 million or 6 percent decrease from the previous year’s appropriated level. The budget also includes a \$4.4 billion negative adjustment in the Federal Highway Administration’s Revenue Aligned Budget Authority [RABA], an automatic adjustment based on receipts from Federal highway user taxes.

### KEY COMPONENTS

- **TEA-21:** The budget fully funds highway, bridge, transit and safety programs at the levels guaranteed by the Transportation Equity Act for the 21<sup>st</sup> Century [TEA-21] (Public Law 105-85). Because highway funding is automatically adjusted based on receipts from Federal highway user taxes, the fiscal year 2003 request of \$23.2 billion is \$8.6 billion below the fiscal year 2002 enacted budget.
- **Transportation Security Administration [TSA]:** The TSA was created pursuant to the Aviation and Transportation Security Act (Public Law 107-71) to improve aviation security by accelerating deployment of explosive detection systems and other airport security equipment, facilitating airport passenger and baggage inspection, and hiring and deploying more Federal Air Marshals. In order to implement this legislation, the administration proposes hiring 41,300 new full-time equivalents [FTEs] – including more than 30,000 screeners, an executive team, law enforcement officers, Federal air marshals, and support personnel – for the TSA. The budget requests \$4.8 billion in budget resources: \$2.5 billion in new budget authority and \$2.2 billion in offsetting collections raised through a combination of new passenger and air carrier fees.

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- **U.S. Coast Guard:** The budget provides \$7.1 billion for the Coast Guard, an increase of \$1.6 billion (not including the fiscal year 2002 emergency supplemental), or 28.2 percent. After 11 September, the Coast Guard's port security mission grew from approximately 1-2 percent of daily operations to between 50 percent and 60 percent today. In addition, the Coast Guard has important national security missions such as illegal migrant and drug interdiction and port security. This proposed increase in funding is primarily divided between a \$736 million proposed lump sum payment to a newly formed USCG Military Retirement Fund; \$732 million for operations; and \$92 million for acquisition.
  - **Air Traffic Control and Safety:** The budget requests \$14.0 billion for the Federal Aviation Administration [FAA], an increase of \$937 million (not including the fiscal year 2002 emergency supplemental), or 7.2 percent, over fiscal year 2002 (not including emergency supplemental funding). The administration plan focuses upon the reduction of runway incidents, and ties budget resources to airspace modernization program performance goals.
  - **Transportation for the Disabled:** The President's budget seeks \$145 million to expand transportation opportunities for individuals with disabilities through the New Freedom Initiative. The administration will propose legislation to authorize this initiative within the Federal Transit Administration.

## **OTHER ISSUES**

### **Status Report on Select Programs**

The administration reports the Federal Aviation Administration's management of the Air Traffic Control system has been ineffective, and the effectiveness of the Coast Guard's Integrated Deepwater Systems Project to replace aging ships and aircraft is unknown.

### **Performance and Management**

The Department of Transportation lacks a systematic performance management process and an effective cost accounting system. The FAA has significant cost, schedule and performance problems with some major projects, and material control weakness in property accounting.

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## DEPARTMENT OF THE TREASURY

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### SUMMARY

As part of the War on Terrorism, the Department of the Treasury plays a vital role, with the Customs Service and the Bureau of Alcohol, Tobacco, and Firearms working in concert with other Federal agencies to protect the Nation's borders and provide homeland security; and the Secret Service protecting Government officials, and fighting money-laundering by terrorists and drug cartels. The administration's fiscal year 2003 proposal for the Department of the Treasury calls for \$15.9 billion in budget authority – a \$769-million, or 5.1-percent, increase over the previous year's appropriated level.

### KEY COMPONENTS

- **Internal Revenue Service [IRS]:** The proposed fiscal year 2003 budget for Tax Administration is \$10.4 billion, an increase of \$489 million, or 4.9 percent. The budget includes \$450 million for technology investments and \$102 million for new customer service and compliance staffing.
- **United States Customs Service:** The proposed fiscal year 2003 budget for the Customs Service is \$3.2 billion, an increase of \$400 million (not including the fiscal year 2002 emergency supplemental), or 14.4 percent, which will support the hiring of 26 new special agents and 288 new inspectors. Of the total, \$744 million will be devoted to Northern Border Security – an increase of \$212 million, or 39.8 percent – and \$684 million to Maritime Security – an increase of \$329 million, or 92.7 percent. A total of \$313 million is provided for the Automated Commercial Environment [ACE] system.
- **Customs User Fees:** The President's budget includes a proposal to raise the air/sea passenger fee and the cruise vessel passenger fee. The proposal is intended to increase receipts and enhance Customs' homeland security efforts. The air/sea passenger fee would be raised to \$11 per passenger, from its 1986 level of \$5. The cruise vessel passenger fee would be raised from \$1.75 to \$2 per passenger.
- **Bureau of Alcohol, Tobacco, and Firearms:** The proposed fiscal year 2003 budget for the Bureau of Alcohol, Tobacco, and Firearms is \$913 million, an increase of \$62 million (not including the fiscal year 2002 emergency supplemental), or 7.3 percent.

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- **United States Secret Service:** The proposed fiscal year 2003 budget for the United States Secret Service is \$1.0 billion, an increase of \$124 million (not including the fiscal year 2002 emergency supplemental), or 13.4 percent.
  - **Stopping Terrorist Financing:** The Financial Crimes Enforcement Network [FinCEN] and Office of Foreign Assets Control [OFAC] have acted since 11 September 2001, to freeze \$34 million in terrorist assets (Taliban, Hamas, and al Qaeda) and assisted U.S. allies in freezing \$33.9 million. The fiscal year 2003 budget provides FinCen with \$52 million and OFAC with \$22 million.

## **OTHER ISSUES**

### **Status Report on Select Programs**

The President's budget reports that the Internal Revenue Service's Customer Service and Tax Compliance Enforcement are ineffective due to outmoded technology and management practices, which means that the IRS provides poor service to taxpayers and that the IRS is unable to ensure that all citizens pay the taxes they owe under the law.

### **Performance and Management**

The Treasury Department is facing many workforce problems stemming from a lack of planning and effective personnel management, and is intending to complete a comprehensive plan in 2002 that will involve a fundamental restructuring to improve service to taxpayers.

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## DEPARTMENT OF VETERANS AFFAIRS

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### SUMMARY

Under the President's budget proposal, the Department of Veterans Affairs [VA] for fiscal year 2003 includes \$25.6 billion in discretionary budget authority to administer veterans' benefits and provide medical care and burial services. This represents a net increase in discretionary authority of \$1.73 billion, or 7.3 percent, over the 2002 level. Mandatory outlays of \$30.3 billion are proposed, representing a net increase of \$3.3 billion, or 12.4 percent, over the 2002 level. Veterans medical care would be funded at \$23.5 billion, an increase of \$1.47 billion, or 6.6 percent, over the 2002 level. Medical collections, including a proposal for a \$1,500 medical deductible, would provide an additional \$1.5 billion (an increase of \$438 million) for VA medical care.

### KEY COMPONENTS

The President's budget includes the following initiatives:

- **Claims Processing:** The budget seeks to guarantee that veterans disability claims are processed accurately and quickly. The VA is automating its existing processes slowly and is attempting to identify and remedy the underlying cause of sluggish processing.
- **Health Care Delivery:** The plan aims at improving health care delivery by coordinating the medical care systems of the Departments of Veterans Affairs and Defense. The VA and the Department of Defense [DOD] will share information and technology to a greater degree during fiscal year 2003.
- **New Deductible:** Focusing medical resources on treating disabled and low-income veterans in another priority. The VA will attempt to reverse the decline in the percent of disabled and low-income patients treated by the VA. The budget proposes a new \$1,500 annual deductible for the lowest-priority veterans, thereby providing resources for the higher-priority disabled or lower-income veterans.
- **Cemetery Expansion:** The budget provides funding major expansion in cemeteries to prepare for increased demands. The VA's goal is to ensure compassionate and good service, while searching for more efficient ways to meet increased burial demands.



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## **OTHER ISSUES**

### **Status Report on Select Programs**

The budget assessments of VA programs range from ineffective for disability and pension claims processing and care for disabled low-income veterans to effective for cemetery benefits and health care quality. The budget states that an assessment of medical care infrastructure cannot be made because VA has fallen behind schedule on the first of 22 regional studies.

### **Performance and Management**

VA's strategy, business plan, and infrastructure will need to adapt to long-term decline in the number of veterans and nearer-term increase in usage of some VA benefits and services, as veterans age and more women draw on them.